BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

Joint Report of the Director of Finance, Assets and IS – and the Executive Director – Place

HOUSING REVENUE ACCOUNT –DRAFT BUDGET 2017/18 & HOUSING CAPITAL INVESTMENT PROGRAMME 2017-2022

1. Purpose of report

1.1 This report provides a summary of:-

(i) The Housing Revenue Account HRA draft budget for 2017/2018;
(ii) 5 Year HRA Forecast;
(iii) Use of the Working Balance; and
(iv) The 2017/22 proposed capital investment programme

2. Recommendations

It is recommended:-

(i) That the Housing Revenue Account Draft Budget for 2017/2018 be approved, with any final amendments / additions being delegated to the Cabinet Spokesperson for Place and the Executive Director for Place;
(ii) That the Service Charge Proposals for 2017/2018 as set out at Appendix D & Sections 3.15 to 3.17 be approved;
(iii) That the 2017/18 Berneslai Homes Management Fee at section 3.26 is approved with any final amendments / additions being delegated to the Service Director, Culture, Housing and Regulation and the Executive Director Place in consultation with the Cabinet Spokesperson for Place;
(iv) That the use of Berneslai Homes Ltd retained surplus as outlined in section 3.27 be approved;
(v) That the investment of the 2017/18 surplus as outlined in sections 3.7 &3.23 be approved.
(vi) The Council Housing Capital Investment programme for 2021-22 is approved.
(vii) The Housing Reserves Fund proposed spend as outlined at 3.22 is approved.

(viii) **That a rent reduction in line with Government's rent policy be approved; and that;**

(ix) **The Board of Berneslai Homes be authorised to vary any of the approved core capital schemes subject to a maximum variation on existing budgets of £250,000, with variations above this amount carried out in agreement with the Executive Director Place and the Cabinet Spokesperson for Place.**

3. Introduction

3.1 This reports sets out the proposed 2017/18 HRA draft budget and the 2017/22 Housing Capital Investment Programme. At section 3.4-3.8 the five year financial forecast is shown highlighting the key pressures facing the HRA over the next five years.

Rent Policy

3.2 On the 8th July 2015 the Government made a surprise announcement to reduce social housing rents by 1% per annum for the next four years from 2016/17. In 2016/17 this amounted to a loss of income of £3.4M rising to £13.2M by 2020/21. In 16/17 savings were identified to mitigate against the income loss. Rent income forecasts had been previously based upon a rent increase formula of CPI plus 1%.

3.3 The 1% rent decrease leads to an average rent decrease of £0.80p per week for 2017/18.

Five Year Forecast

3.4 The table below compares the savings requirements reported in last year's business plan to those currently forecast.

	2017/18 £M	**2018/19 £M**	**2019/20 £M**	**2020/21 £M**	**2021/22 £M**
Savings Required Jan 2016	-	0.305	3.112	2.455	2.133
Major Changes:					
Debt Repayment	0.289	2.110	2.194	2.282	2.373
Bad Debts	-1.077	-0.015	-0.022	0.671	-0.025
Impairment	-1.000	-0.500	-0.500	-0.500	-0.500
Interest Charges	-0.285	-0.266	-0.479	-0.545	0.087
Rent Income (inc RTB's)	0.255	0.521	0.736	0.921	1.246
Other (net)	-0.550	-0.662	-0.708	-0.764	-1.059
Latest Forecast:					
Savings Required	**-**	**1.493**	**4.333**	**4.520**	**4.255**
Surplus	**2.368**	**-**	**-**	**-**	**-**

3.5 A remodelled service offer is being developed to achieve the required savings in future years.

3.6 In 2017/18 one off savings in the following main areas have resulted in a surplus of £2.4M.

- Impairment Charges £1.000M – Revised statutory determinations in relation to the accounting treatment of impairment are expected this year.
- Bad Debt Provision £1.077M – Delays in the Government's roll out nationally of Universal Credit.

3.7 It is proposed to invest the £2.4M surplus in 2017/18 in developing a New Build scheme to respond to the housing needs identified within the Older Persons and Vulnerable Adults needs assessment.

3.8 A summary of the draft 2017/18 budget is included at Appendix A and the main variations are included at Appendix B.

<u>2017/18 Key Budget Assumptions</u>

3.9 A number of assumptions have been built into the 2017-18 budget, the key areas summarised below:

- Average housing stock of 18,521 dwellings .
- No requirement for new external borrowing
- 1.5% of rent income for the bad debt provision
- 1.0% rent loss due to voids

<u>Available HRA Working Balances</u>

3.10 The table below summarises the HRA working balance position.

	£M
HRA Working Balance at 31st March 2016	**40.9**
Earmarked For:	
i) Capital Programme Commitments (line 15 Appendix C)	15.6
ii) HRA Reserve Fund (see section 3.22)	14.3
iii) Welfare Reform	3.0
iv) Impairment	2.0
iv) General Contingency/Minimum Working Balance	3.5
v) Sale of High Value Voids	2.5

3.11 The Welfare reform earmarking will be reviewed annually and released in later years subject to the full roll out of Universal Credit.

3.12 Revised statutory determinations are anticipated in relation to the accounting treatment of impairment. The earmarkings for impairment will be reviewed in the light of the revised determinations and released during 2017/18 if no longer required.

3.13 The general contingency is set at 5% of the rent income budget, this is the minimum working balance.

3.14 The enforced sale of high value voids is a significant risk to the HRA as outlined at sections 11.8 & 11.9 and the Government's intentions regarding scale and timescales are not clear. We will monitor the position on an ongoing basis & release the earmarked resources to support other priorities if no longer required.

Service Charge Increases/Decreases

3.15 It is proposed that the communal facilities charge for those in housing for older people schemes should increase from £6.85 per week to £6.96 over 48 weeks in line with projected actual costs of the services provided.

3.16 It is proposed that water charges in those schemes where tenants do not pay Yorkshire Water direct should increase in line with the actual costs of water consumed. The revised weekly charges based upon pooling the costs over all relevant schemes are shown in Appendix D.

3.17 There are 33 New Build properties with shared facilities for which service charges are levied. It is proposed to levy the weekly charges in line with estimated actual costs, the individual scheme costs are shown in Appendix D.

2017/22 Council Housing Investment Programme

3.18 Cabinet previously approved a five year Council Housing Capital Investment Programme 2017-22 (Cab.16.12.2015/9). Moving forward a year this report sets out the proposed investment programme for 2021/22 and new schemes identified since the original five year programme was approved.

3.19 The proposed 2017-22 Council Housing Investment Programme totals £137.419M. The aim of the core investment programme is to maintain the council housing stock in Barnsley at the decency standards set by the Barnsley Homes Standard. However it has also been possible to identify resources for added value schemes including new build and acquisitions. Appendix C details the five year programme and the resources available for investment.

3.20 The 2017-22 Barnsley Homes Standard (BHS) budget is kept at a level to keep properties from falling into non decency. This programme targets those properties where, through the passage of time, elements such as kitchens; bathrooms; heating systems; windows and external doors are worn out and need replacing.

3.21 The five year programme includes the main non Barnsley Homes standard budgets -replacement items, major adaptations and structural extensive works.

3.22 Last year savings totalling £14.3M were identified within the Council Housing capital programme (£9.3M) and from a review of the HRA working balances (£5M).The investment will be used to support the Council's priority of Housing Growth and providing affordable rented housing. The table below shows the proposed investment and profile of this budget. It is recognised that additional resources will be required to develop initiatives and fast track schemes.

Project	**17-18 £M**	**18-19 £M**	**19-20 £M**	**20-21 £M**	**Total £M**
Baden Street New Build	0.275	0.375	0.100		0.750
Section 106 Acquisitions	1.000	1.000	1.000		3.000
Other Stock Acquisitions		2.700	2.700	2.700	8.100
Other Housing Growth Initiatives			1.000	1.000	2.000
Contingency/Capacity	0.100	0.100	0.100	0.194	0.494
Total	**1.375**	**4.175**	**4.900**	**3.894**	**14.344**

3.23 It is proposed to invest the £2.4M surplus in 2017/18 in developing a New Build scheme to respond to the housing needs identified within the Older Persons and Vulnerable Adults needs assessment.

3.24 The proposed investment in acquisitions will enable the Council to utilise it's '1-4-1' receipts generated from the sale of Council dwellings though 'Right to Buy (RTB). These receipts can be used to invest in eligible new build schemes and acquisitions but must be spent within 3 years or be returned back to the Government. In addition the 1-4-1 contribution can only represent 30% of the total cost of the investment, the other 70% is required from other HRA capital resources.

3.25 Investment in further New Build and acquisitions helps to offset the stock loss and subsequent rent income loss from sales through RTB's, helping the sustainability of the HRA.

Management Fee

3.26 The proposed Berneslai Homes Management Fee for 2017/18 is detailed below.

	£	£
Original Management Fee 2016/17		**13,946,090**
Variations		
Salaries (1% pay award), Increments and Pension Increase (1.6%)	168,416	
Apprentice Levy	32,024	
Utility Decreases	-77,000	
Digital Agenda	-78,500	
Other	-54,460	**-9,520**
Updated Management Fee		**13,936,570**

3.27 It is proposed to use Berneslai Homes Retained Reserves to fund a £50,000 development in an investment to promote the digital agenda and channel shift.

3.28 Previously approved priorities for investing the Company's retained surplus include the following:-

- Service impacts of Welfare Reform,
- Financial risk, including risks around the PRIP arrangement,
- Further modernisation of the service which may be around looking at digital inclusion, e-access and the digital agenda and channel shift.
- Support to the 2016/17 Berneslai Homes budget (time limited Development Proposals),

3.29 In the future there is a potential for Berneslai Homes to consider using its reserves to support housing growth by direct new build/ acquisition and the purchase of enforced high value sales from the Council. This approach would bring much needed extra affordable housing to Barnsley outside of RTB regulations. The viability of this will depend upon the scale of the sales and would require consideration and approval from the Council.

4. Consideration of alternative approaches

4.1 The budget has been developed with the aim of ensuring wherever possible that existing approved policies can continue to be delivered. From the many alternative approaches available the package of proposals in this report is considered to best achieve this intention.

5. Proposal and justification

5.1 It is proposed that individual dwelling rents be decreased in line with the Government's rent policy. In addition it is proposed that the use of Berneslai Homes Ltd retained surplus as set outlined in 3.27 be approved and that the proposed investment of the 2017/18 surplus as set out in sections 3.7 & 3.23 be approved. It is proposed that the 2017-22 capital programme (Appendix C) is approved. The programme is affordable over the five year period and consistent with the Council's approved Housing Strategy.

6. Implications for local people / service users

6.1 The effective management of the HRA helps to consistently drive forward service improvements for the benefit of both council tenants and the wider community.

6.2 The capital programme is designed to meet decency standards and has aspects within it to help reduce fuel poverty and to maximise opportunities to invest in affordable warmth initiatives. The major adaptations budget will also support the continued independence of vulnerable people.

7. Financial implications

7.1 In total these proposals will maintain the minimum working balance at the required level of £3.5M.

7.2 The total cost of the 2017/22 capital programme is £137.419M and is affordable over this five year period.

8. Employee implications

8.1 Any employee implications will be addressed as detailed scheme proposals are developed and approved.

9. Communications implications

9.1 A joint press release will be issued. Berneslai Homes will continue to communicate directly with those tenants who will be directly affected by the proposed capital works in a timely manner.

10. Consultations

10.1 Discussions have taken place with the Director –Finance, Property & Information Services and the Executive Director – Place.

10.2 Consultations with local members on the Barnsley Homes Standard and on any other major capital schemes in their area will continue to take place.

10.3 Consultations on the Council Housing Capital Investment Programme have and will continue to take place with Planning and Highways, NPS, Legal Services and Internal Audit where appropriate.

11. Risk management issues

11.1 In preparing the draft budget for 2017/18 a number of risks have been identified which will require attention during the financial year. Risks have been identified where they would have a significant impact on the ability of the Council and Berneslai Homes to achieve the stated objectives and to ensure a balanced budget at the year-end.

(1) Welfare Reform

11.2 Rent collection rates in the first 6 months of 2016/17 continue to remain strong at 98.27%. This can be attributed to the excellent efforts in the rent collection team, the delay in Universal Credit being rolled out to a wider client group, our flexible approach in supporting tenants to downsize in order to reduce their financial commitments and the team being proactive in helping tenants to claim grants and benefits including discretionary housing payments.

11.3 Welfare Reform continues to be a major risk to our Business Plan, in particular the reduced benefit cap implemented from November 2016 and the eventual full roll out of Universal Credit (UC) when working age claimants receive their rent included as part of their monthly benefit rather than paid directly to the landlord in the form of Housing Benefit. The Department for Works and Pensions (DWP) have just published its transitional roll out schedule for the full UC service for all claimant types. Barnsley is scheduled for rollout in July 2017. After this roll out is complete the DWP will begin moving all remaining existing benefit claimants to the full UC service.
In September 2016 we are aware of 103 tenants who are in receipt of UC and in total £45,076 is owed by 88 tenants, this equates to an 82% collection level. There is a specific provision in the HRA working balance of £3M to mitigate against this risk.

11.4 The annual provision for Bad Debts within the Business Plan has been reviewed in light of the delays in the roll out of Universal Credit. The budget has been set at 1.5% of rental income in 2017/18 rising to 3% in 2018/19 to 2020/21 reducing to 2% thereafter. This reflects the potential roll out of Universal Credit and a return to more normal levels after.

(2) Treasury Management

11.5 With the introduction of self financing the HRA exposure to treasury management risk has significantly increased as the protection from increased interest rates provided by the previous Housing subsidy system has ceased. The Council's approach to managing treasury management risk is set out in the Treasury Management Strategy agreed annually as part of the budget process. The types of risk which are most relevant to the HRA are interest rate risk and refinancing risk.

11.6 In the 2017/18 budget variable rate loans previously included at 2% have been reduced to 1.2% rising to 1.7% in 2018/19 and 2.5% for later years. This does increase the interest rate risk and will need to be monitored closely.

(3) Right to Buy

11.7 The level of sales through the 'Right to Buy' is greater following Government changes which have made the scheme more attractive through increases to the amount of discount which tenants receive. The actual sales for 2015/16 were 148 compared to 40 sales in 2011/12. The estimate for 2016/17 is 200 and 2017/18 is 225. The first call against the receipt from each **additional** sale is to meet the debt for that property taken on under the self financing regime. Yet increased sales through 'Right to Buy' still places a burden on the 30 year plan due to the loss of economies of scale, difficulties in downsizing to match new lower income levels and potential restructuring costs. Maintaining stock levels by taking advantage of acquisition and new build opportunities will mitigate against this risk and provide homes for people in housing need.

(4) High Value Sales

11.8 The Housing and Planning Act 2016 introduced the 'Right to Buy' for Housing Association tenants. To fund this scheme and compensate Housing Associations for the loss of their housing stock the government plans to introduce an annual levy on Local Authority HRA's. The levy is payable regardless of any high value stock actually becoming vacant or being sold.

11.9 In 2015/16 HRA final accounts report (cab.15.6.2016/9) approval was given to earmark savings to mitigate against the impact of the Sale of High Value Voids avoiding the need to sell around 30 dwellings. The date of implementation of the levy and the scale of the levy are unknown although the Government has recently confirmed that a payment will not be required in 2017/18.

12. Glossary

CIPFA – Charted Institute of Public Finance and Accountancy
CLG – Department for Communities and Local Government
Delivery Plan - This document sets out Berneslai Homes' priorities, planned outputs and targets for the coming year and is agreed with the Council.
HRA – Housing Revenue Account
Working Balance - The accumulated surplus (excess of income over expenditure) on the Housing Revenue Account
Earmarked Working Balance - Working Balance which is set aside to meet planned future expenditure
Unallocated Working Balance - Working balance which is not set aside and is potentially available to fund priority additional expenditure items
PRIP - Property Repairs and Improvement Partnership
MRR - Depreciation Charges to the HRA are transferred to the Major Repairs Reserve pending their use to fund capital schemes
RSL - Registered Social Landlord, for example a housing association
Impairment Charges -. these are made to reflect reductions in the value of assets due to changes in the physical condition of the property over and above normal wear and tear and reductions due to changes in market conditions. These charges can first be made against the revaluation reserve of the asset (if one exists). Charges in excess of the revaluation reserve have to be made to the income and expenditure statement.

13. List of appendices

Appendix A - Housing Revenue Account Draft Budget 2017/18
Appendix B - Major Variations
Appendix C - Housing Capital Investment Investment Programme 2017-22
Appendix D –Proposed 2017-18 Service Charge Increases

14. Background papers

14.1 Welfare and Work Act 2016

14.2 Housing and Planning Act 2016

14.3 Budget working papers containing exempt information - not available for inspection.

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